

## APPENDIX A

**Title: Internet Based System for Identification, Measurement and Ranking of Investment Portfolio Management, and Operation of a Fund Supermarket, Including “Best Investor” Managed Funds**

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**Marketocracy's *Who is the Best Investor in the World?*™ Competition Rules:**

1. Welcome to the *Who is the Best Investor in the World?* competition, where individual investors can experience first hand what it's like to be a portfolio manager running a stock mutual fund. The competition enables Marketocracy members to build, run and track their own model portfolios, and compare their audited results with those of real world professional investment managers. Build and manage a top performing model portfolio at Marketocracy and we'll pay you real cash if you're the best!
2. No purchase necessary. The *Who is the Best Investor in the World?* is a skill competition, open to (We want the competition open to almost everyone in the world). Quarterly competitions begin June 1, 2000, for portfolios registered and confirmed by ? email-internet no later than midnight, May 31, 2000. All competitions for *best quarter*, *best year to date*, and *best one year* performance records end Friday, December 29, 2000 at 4:00 p.m. ET.
3. To register and receive prizes, all participants must provide Marketocracy Inc. with bona fide contact information; registration information includes name, address, phone number, email address, and social security number (we need this to send you a check, if you're a winner). To enter, you must read and understand these rules. Next, complete the online entry form on our secure server and click on the "I Agree" button. Be sure to see our Privacy Policy on our website.
4. Contestants who are found to have registered under aliases in an effort to evade the rules Marketocracy and/or gain an unfair advantage in the *Who is the Best Investor in the World?* competition will be disqualified.
5. Marketocracy Inc. assumes no responsibility for lost, late, misdirected or illegible entries or for any computer, online, telephone or technical malfunctions or market delays or closings that may occur. Entries will be declared made by the authorized account holder of the email address submitted to us at the time of entry. "Authorized account holder" is defined as the natural person who is assigned to an email

address by an Internet Access Provider, online service provider or other organization that is responsible for assigning email addresses for the domain associated with the submitted email address.

6. Each participant will be allocated \$1,000,000 (US) in fictional Marketocracy dollars per fund to manage during the competition period. Each contestant may build up to 10 unique portfolios. No contestant may register more than once or more than 10 portfolios. When setting up a new portfolio, a contestant will be required to classify his or her fund as to its investment objective; See Fund Classifications.
7. Contestants may register and create portfolios at any time during the quarter to enter the next quarter's investment competition. All Marketocracy members will have until Midnight, December 31, 2000 to register a portfolio eligible to win the \$1,000,000 prize for best fund performance for the 2001 calendar year.
8. Metric to determine "Best": Fund performance will be measured for a specific competition period (i.e. quarterly, year to date, and one year). For portfolios that are timely registered, performance will be measured using the dollar increase in net asset value (NAV) during the specific competition period on the first day of the competition period that a portfolio is eligible to enter.

Competition portfolios will be tracked and ranked based on the change in their net asset value (NAV, also called the ITAV). Specifically, portfolio performance is measured by calculating the change in the NAV during each competition period. The NAV of an investment portfolio is calculated by dividing the current value of its holdings by the number of shares outstanding. All competition portfolios at Marketocracy will begin with \$1,000,000 in fantasy cash, with 100,000 shares outstanding and a \$10.00 NAV. When building competition model portfolios, contestants will be required indicate their portfolio's investment focus -- either general or industry specific.

9. Marketocracy has endeavoured to create a real-world stock market simulation for our *Who is the Best Investor in the World?* competition. We believe that the best long term portfolio performance comes from investing in good companies, not from day trading. While our trading system mirrors the real world as closely as possible, investors who prefer to capture quick gains may find day trading on our system {not explained yet that trading takes place on M-System} more difficult than actual online day trading through an eBroker.
10. Registered participants may select equities for their portfolios from those traded on

the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), OTC market (NASDAQ) and OTC Bulletin Board (OTCBB) (herein “the Real Market”). The NYSE, AMEX, NASDAQ and Bulletin Board are open from 9:30 a.m. to 4:00 p.m. ET. After hours trading will not be permitted. Stock price quotations in the competition are delayed 15 minutes. All trades occur on the Marketocracy market rather than in the Real Market. Orders submitted for entry outside of normal trading hours, 9:30 a.m. to 4:00 p.m. ET, will be entered into the appropriate order book for execution at the opening on the following trading day, subject to communications delays and availability. Simulated order executions for the competition are based on the actual reported trades of NYSE, AMEX, NASDAQ and OTC Bulletin Board stocks, on a share for share basis, following a 15 minute order delay. All *Who is the Best Investor in the World?* competition orders are executed by Marketocracy with a 15 minute delay, subject to other competition orders, market conditions, system performance and other factors. {name the “other factors”}

11. To create the most realistic trading simulation possible, Marketocracy will maintain an order book for all stocks traded by our members. Your market, limit, or stop order for a given stock will be prioritized by type (market or limit) and by time, just like real orders. Each order book will have two halves- a buy half and a sell half. All member buy and sell orders will go into the appropriate order book 15 minutes after they are entered on our system. Orders will be executed in turn, just like a real ECN. Only one buy and one sell order per stock will be executed at any moment in time. Marketocracy members who favor small, illiquid stocks take note: Your limit or market orders may take days or even weeks to fill. This is because our trading simulator fills orders based on actual trading volume in the Real Market. Stocks with very little daily trading volume will be as difficult to trade here as they are in the real world!

Market, limit and stop orders are accepted, as are day and target (specified price) good ‘til canceled (GTC) orders. Market orders cannot be entered as good ‘til canceled. Your limit buy or sell order for a specific stock will begin to fill after the market orders in that stock’s order book are filled. Stop orders become market buy or sell orders once actual trades are executed at the stop price.

No margin buying or short selling is allowed. Additionally, no trading of options, bonds, futures, commodities or mutual funds is permitted.

12. Unfilled balances of working orders may be cancelled or modified by contestant. However, cancellations or changes of working orders are subject to verification by Marketocracy's trading system. Marketocracy reserves the right to deny cancellation or modification of orders for stocks trading in unusual or fast market conditions.
- Splits, consolidations, takeovers, and delistings will be accounted for at the end of each day. Account values may temporarily be misrepresented until reconciliation occurs. Unreconciled stocks may be unavailable for trading.
- Dividends will be paid on the close of business on the ex-dividend date to holders of the respective stock on the day before the ex-dividend date. All portfolios will be required distribute dividends and capital gains once per year. See Distributing Dividends and Capital Gains.
13. All executed competition trades will be charged a commission of \$.05/share on market and limit orders, and \$06/share on stop orders. All funds will be charged 2%, or 200 basis points, of assets annually, for management services. The management fee will be calculated daily and debited monthly. End of day fantasy cash balances in competition portfolios at will earn annual interest based on the Federal Funds Rate, less 3%. The Federal Funds Rate is currently set at 5.75%. Interest is calculated daily and credited monthly.
14. Marketocracy reserves the right to disqualify portfolios or suspend trading in certain securities, or certain types of trades not specified under the rules, due to fast markets, or other unusual trading situations and conditions beyond the control of Marketocracy. While Marketocracy has built a realistic trading interface, the company does not guarantee system availability, which may from time to time be impacted by conditions beyond the control of system engineers.
15. Just like real mutual fund portfolios, all competition portfolios at Marketocracy must pass a quarterly diversification test. In our case, competition portfolios are considered "non-diversified" mutual funds. Here's how the Marketocracy competition diversification test works: On the last trading day of each calendar quarter your fund must be within SEC and IRS guidelines regarding portfolio position concentrations ([LINK TO TAX BENEFIT](#)). In half of your total fund, no one position can exceed 25% of the total fund assets. In the other half, no position can exceed 5% of the fund's total assets. In either case, your cash position isn't limited (but if you've got too much cash, your performance may suffer!). Take a look at this example: Let's

say that on the last trading day of the first calendar quarter of 2000, March 28th, your \$100,000 fund holds 23% of total assets in Apple, a 22% stake in Lucent, and 4.5% stakes in American Online, Cisco and Microsoft - with the balance in cash. This portfolio complies with the IRS & SEC diversification test for non-diversified mutual funds because the Apple and Lucent positions, totalling 45%, or \$45,000, make up less than half of the portfolio's value, with neither position exceeding 25% (or \$25,000). In the other, half of the fund, no one position (excluding cash) totals more than 5% of fund assets. Funds that do not pass the quarterly diversification test will be disqualified from the Who is the Best Investor in the World competition.

Also on the last trading day of each calendar quarter, both general and industry specific portfolios must have at least 65% invested in stocks corresponding to their investment focus. Cash is not considered a qualified investment when calculating the 65% investment threshold. Portfolios that fail to meet this criteria will be disqualified from the competition.

16. To further simulate the experience of running an actual mutual fund, the top 20 (or a percent of the top) portfolios ranked by quarterly performance in each fund category will receive fantasy cash "inflows" or new investments on a monthly basis in the following quarter. Similarly, the 20 (%) worst performing funds in each fund category will have fantasy cash "outflows," or redemptions of cash, in the following quarter. Fantasy cash Inflow and outflow amounts will be calculated based on performance ranking and are credited to, or debited from, competition portfolios at the sole discretion of Marketocracy, Inc. Remember: cash inflows and outflows do not change your fund's NAV; however, extra cash on hand from new investments in the fund, or having to sell positions to raise cash for fund redemptions, can both adversely effect portfolio performance.
17. Cash prizes will be offered for: a) the best quarterly performance for each the calendar quarters ended September 30, 2000, December 31, 2000, March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001, respectively; and also for b) the best year-to-date performance for each of the periods from January 1, 2001 to June 30, January 1, 2001 to September 30, 2001, and January 1, 2001 to December 31, 2001.

Schedule of prize money:

Best performance for the quarter ended September 30, 2000:	\$100,000
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Best performance for the quarter ended December 31, 2000:	\$100,000
Best performance for the quarter ended March 31, 2001:	\$100,000
Best performance for the quarter ended June 30, 2001:	\$100,000
Best performance for the year-to-date ended June 30, 2001:	\$250,000
Best performance for the quarter ended September 30, 2001:	\$100,000
Best performance for the year-to-date ended September 30, 2001:	\$250,000
Best performance for the quarter ended December 31, 2001:	\$100,000
Best performance for the year ended December 31, 2001:	\$1,000,000

In the event of a tie, results will be displayed to the fifth (5th) decimal, and if still tied, the prize will be split equally among all eligible qualified winners.

18. All qualified prize winners will be notified by email, phone, fax or express mail approximately one week after the end of the competition period they have won. Winners' Names will be posed on Marketocracy's website -give URL-. To collect prizes, winners must execute, notarize and return to Marketocracy an Affidavit of Eligibility, together with a Prize Acceptance Form, a Waiver and Release of Liability and Permission to use name, address, photo, and likeness for news and promotional purposes without additional compensation. All prizes will be paid in full by check or by wire approximately two weeks after the receipt and verification of the documents listed above. Prizes will be paid in U.S. Dollars by check drawn on a U.S. Bank. All costs of export and conversion of funds are borne by Winner. All taxes are the responsibility of Winner; actual prize value may be net of any national, federal, state or local taxes, required withholdings, imports, duties and the like.
19. Contestants are not required to sell positions at the end of the competition. Keep your fund going and we will continue to track your investment performance!
20. Marketocracy Inc. and the *Who is the Best Investor in the World?* competition are intended for a member's personal, non-commercial use only. Contest submissions, trades and results are the property of Marketocracy, Inc. Members may not copy, modify, transmit, distribute, display, perform, publish, reproduce, license, transfer or sell any derivative works, software, products, reports or services obtained from this site or developed through this contest.

The *Who is the Best Investor in the World?* competition cannot be used for any form of gambling.

21. Employees of Marketocracy Inc. and their immediate family members are not eligible to enter any competitions offered by this site. This is a skill competition, so odds of winning cannot be estimated. Winning will depend in large part on contestants' skill and diligence, and on the market performance of a contestant's portfolio holdings. Competition methodology and performance tracking audited by Tate, Weller & Assoc.

*Marketocracy Inc. reserves the right to modify these rules at any time and to terminate the competition at any time, including prior to prize award. Changes or termination will be posted on Marketocracy's website. © 2000 Marketocracy, Inc.*

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